R4105-5 J2 A

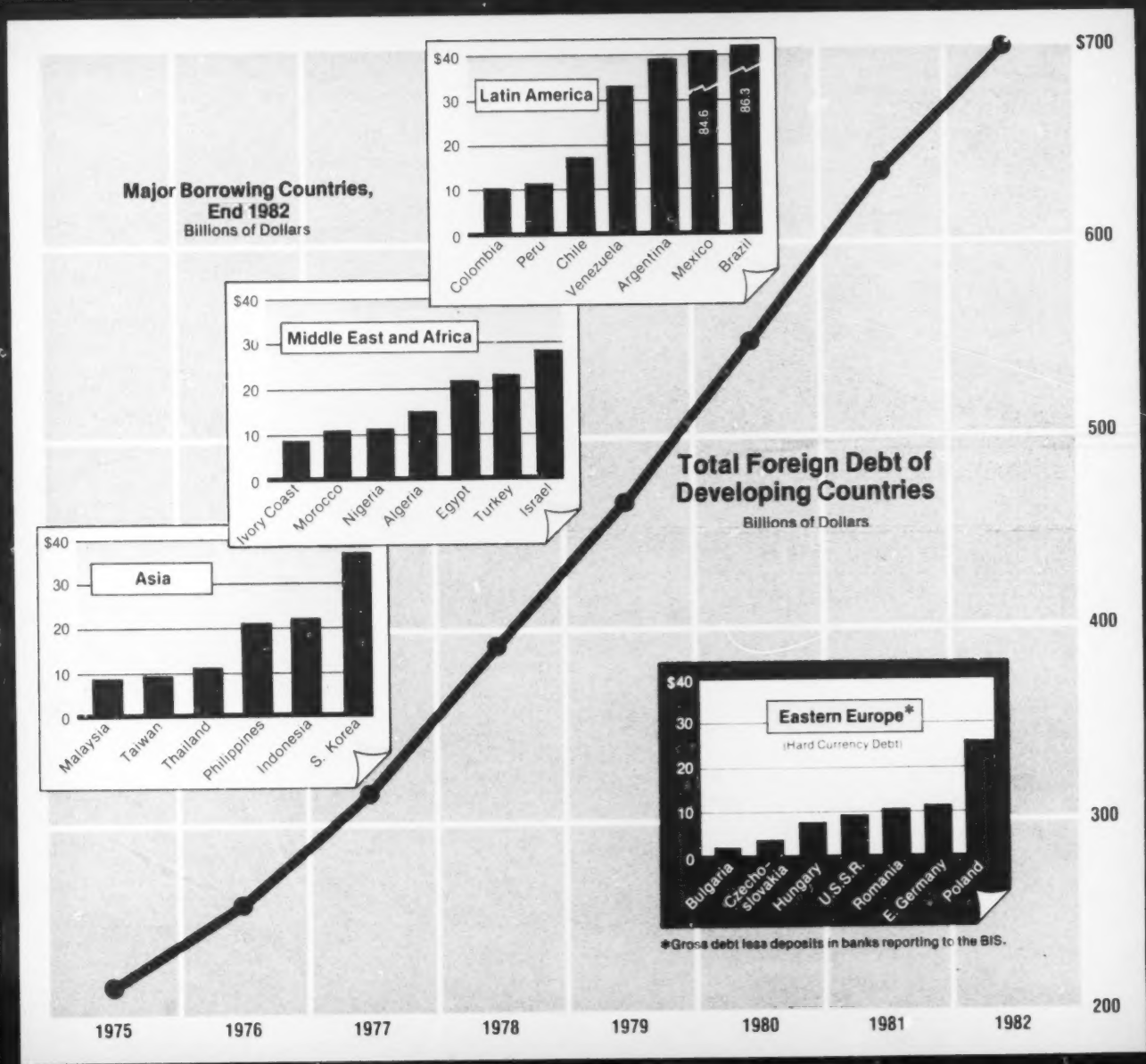
The Conference Board

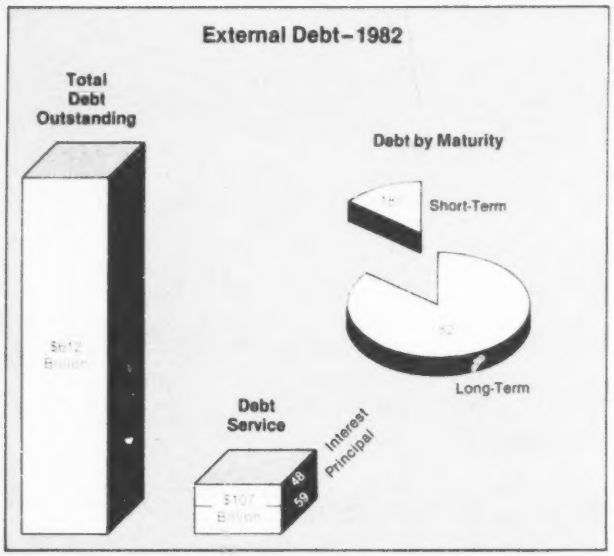
International Debt and Financing

Economic Road Maps
Nos. 1960-1961

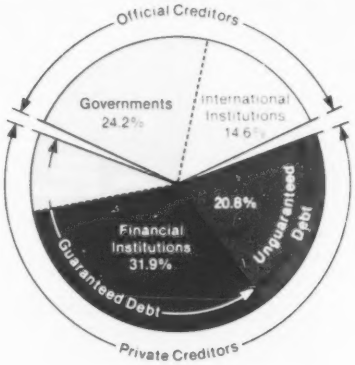
October, 1983

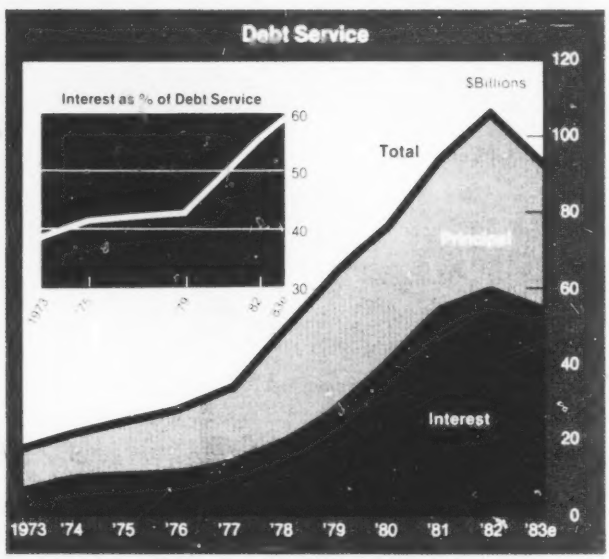
Total foreign debt of the less-developed countries (LDC's) more than tripled, from about $200 billion in 1975 to over $700 billion in 1982. At the end of 1982, countries in Latin America owed over 40 percent of this debt, the Asian countries accounted for approximately 25 percent, and the African nations and the developing countries of Southern Europe owed 15 percent each. A mere half-dozen less-developed countries owed almost half of all the debt. In addition to the $700 billion, an estimated $70 billion in hard currencies was owed by East European countries to Western creditors.





Long-Term Debt by Type of Creditor, 1982

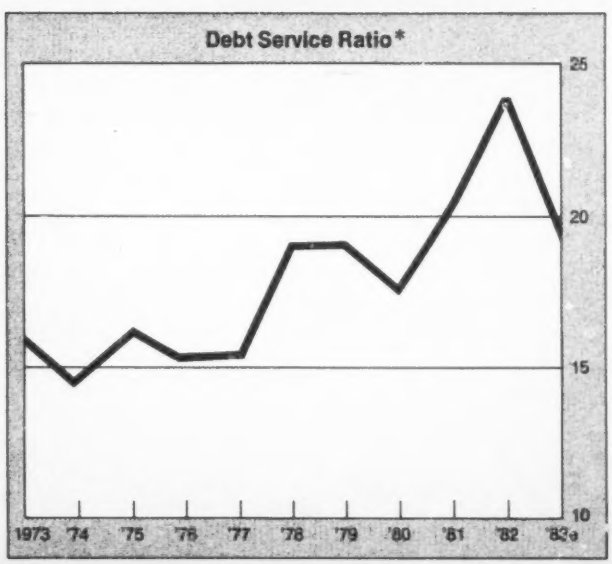




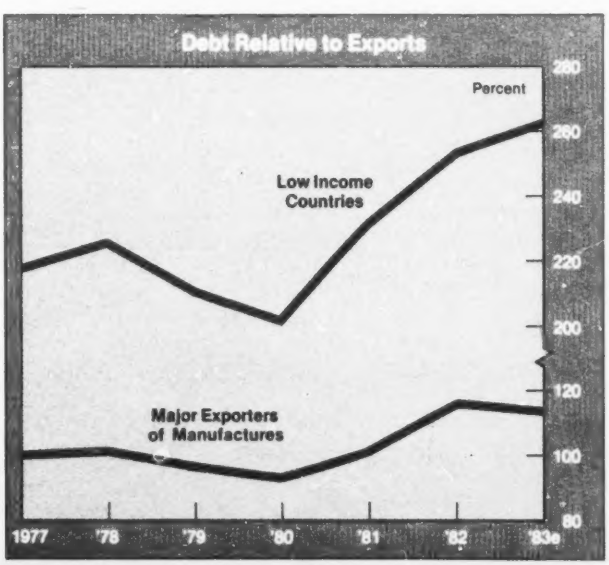
The prolonged recession of the early 1980's, which significantly cut import demand in the industrial countries, made it harder for developing nations to sell their products. Another LDC problem was created by the sharp fall in commodity prices as commodity exports are a crucial source of their income. Simultaneously, the LDC import bill ballooned because of the more than 100 percent rise of oil prices in 1979 to 1980. The sharp run-up in interest rates during the recession compounded the LDC's problem of debt repayment, as did the appreciation of the U.S. dollar (much of LDC debt is denominated in dollars).

Given these developments, the current-account balances of the LDC's deteriorated from an average annual deficit of around $40 billion in the mid and late 1970's to an average annual deficit of $95 billion for the 1980 to 1982 period. The developing countries, therefore, had to go more deeply into debt to finance their vastly expanded current-account deficits.

Some improvements have taken place recently: Growth in the industrial countries has picked up; oil prices have steadied; commodity prices have strength-



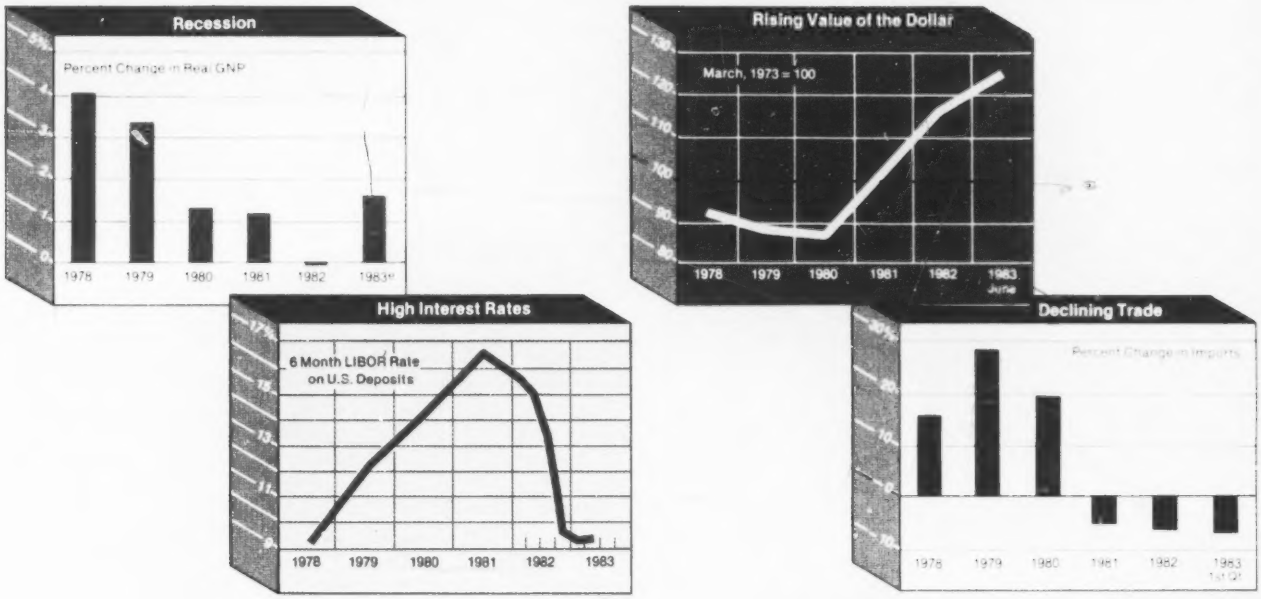
*Payments as % of exports of goods and services.



Short term debt: Debt with an original maturity of under one year, except for bank debt which includes all debt maturing in under one year irrespective of original maturity.

ping Countries

Developments in Industrial Countries . . .

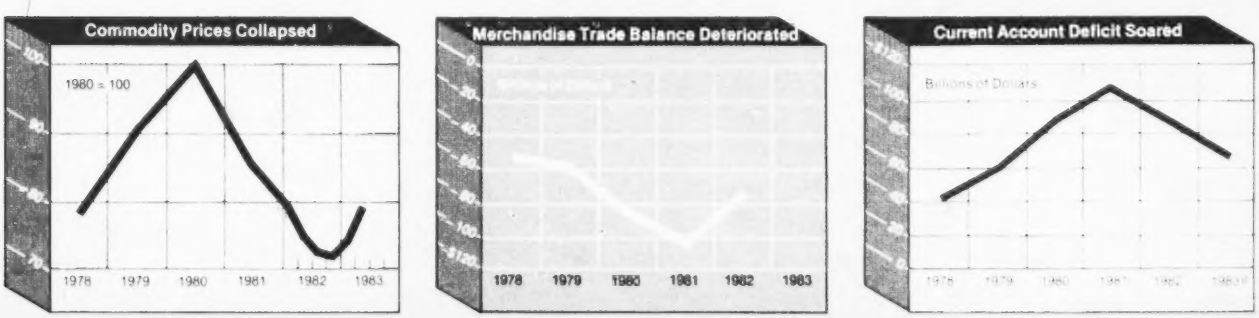


ened; and interest rates have fallen. Additionally, many of the debtor countries have initiated stringent domestic economic programs to reduce their current-account deficits and international borrowing needs.

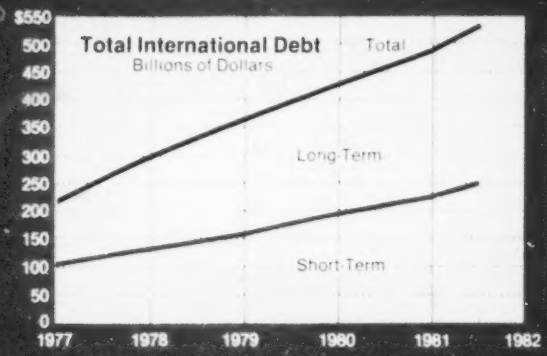
Until about ten years ago, developing countries had very little access to international financial markets. In the early 1970's, about two-thirds of their debt was owed to official creditors—governments and international organizations. Beginning in 1974-1975, after the first oil price shock quadrupled the LDC current-account deficit, banks began to play an increasingly important role in recycling OPEC funds to the developing countries.

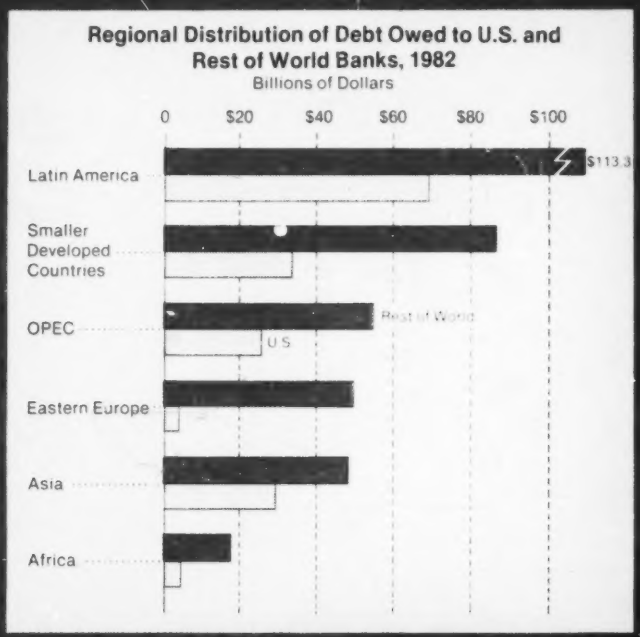
There are important differences between loans made by the banks and those extended by governments and international agencies. Bank lending is at market-determined interest rates, while official agencies often make loans at subsidized rates that are lower. Moreover, the interest rates on bank credits, unlike those on official credits, are floating rates that change periodically. Thus, countries with a large component of floating-rate debt have been subject to large variations in their interest payments, given the volatility of rates in recent years. Bank loans are granted for a shorter period (rarely over ten years) than are loans provided by official lending agencies, such as the World Bank, where a loan with a fifteen-to-twenty-year term is not uncommon. With a bank loan, the recipient can extend the use of the funds at maturity only if the creditor agrees to roll over the loan. Thus, countries that have a very large percentage of their debt in maturities under one year are particularly vulnerable to a liquidity crisis if the loans are not renewed. Indeed, one of the difficulties encountered by debtor countries during 1982 and 1983 has been just this unwillingness of some banks to roll over maturing debt.

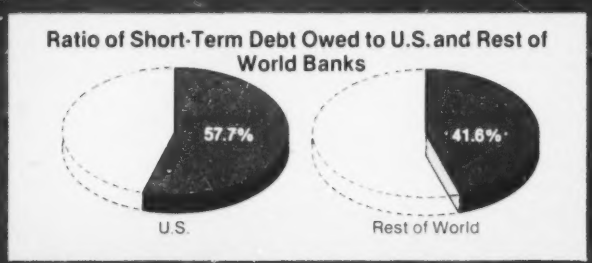
· · · and in Borrowing Countries



International Bank Lending

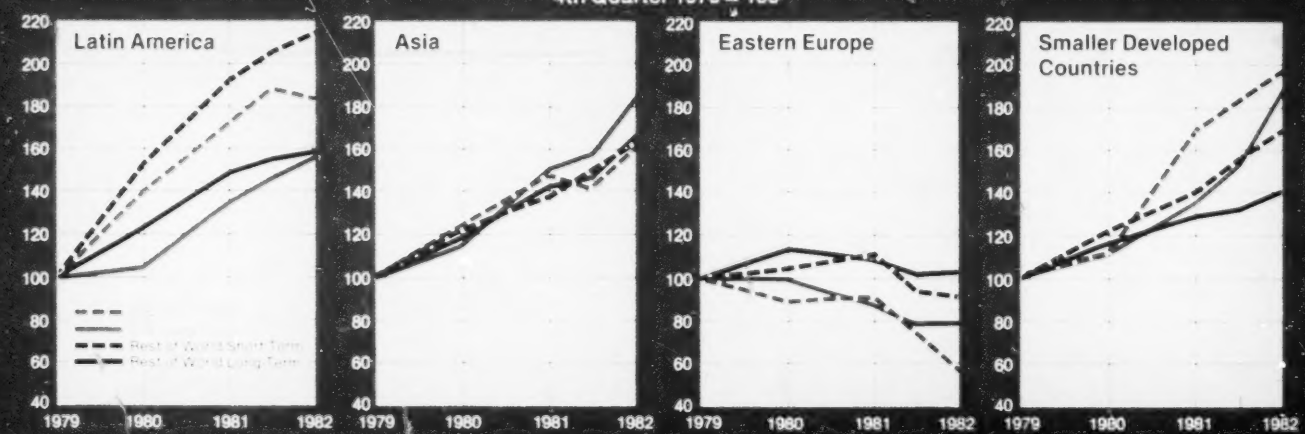


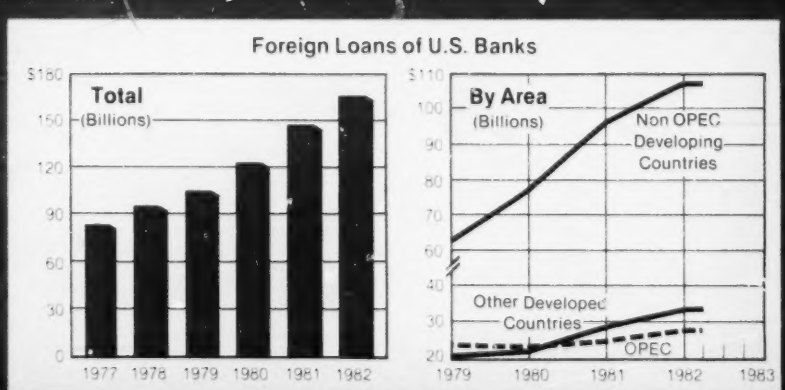




Change in Lending by U.S. and Rest of World Banks

4th Quarter 1979 = 100





Until recently, debt-servicing problems have been confined to a few isolated cases. During 1982 and 1983, however, more than 25 countries around the world were in arrears, and in many cases, rescue programs had to be put together.

Eva Culen
Laurie Landy

Sources: International Monetary Fund; Morgan Guaranty Trust Co.; The Federal Reserve Board; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Chief Chartist

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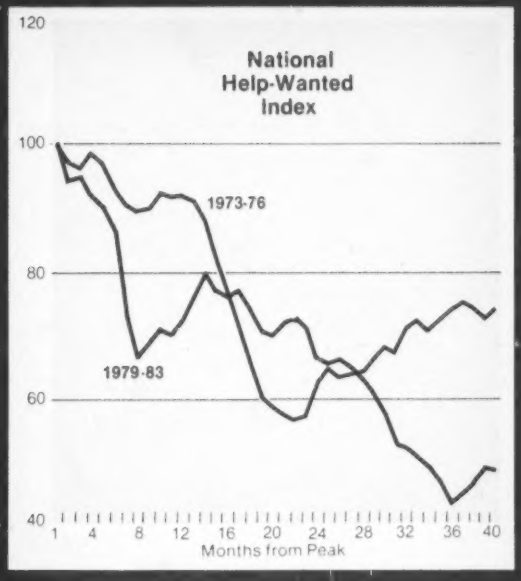
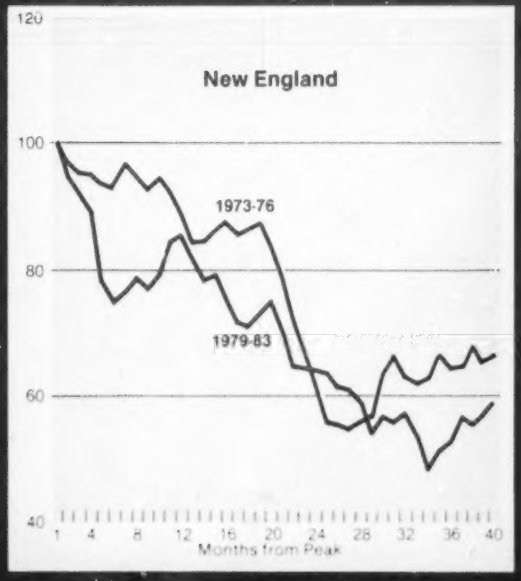
The Conference Board

Help-wanted Advertising in the Business Cycle

Economic Road Maps
No. 1962-1963
November, 1983

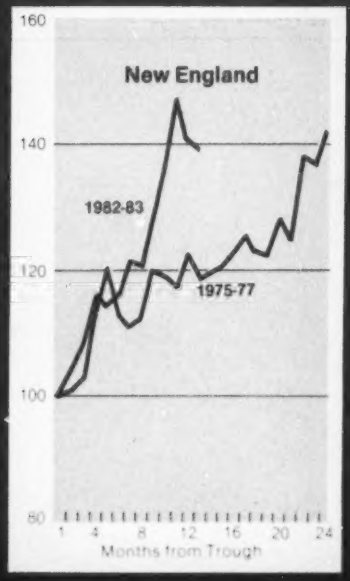
The unemployment data generated by the Bureau of Labor Statistics are attempts to measure the *demand* for jobs. However, there are few data available to quantify the *supply* of jobs. One set of data that serves that function is The Conference Board's series on help-wanted ads in major metropolitan areas across the country. Not every job is advertised in a newspaper's classified section, nor is every opening filled through a want ad. Nevertheless, advertising is an important step in the hiring process. Therefore, help-wanted ad volume is a barometer of business plans for the production of goods and services. Specifically, as new orders expand, businesses generally step up advertising to recruit job applicants.

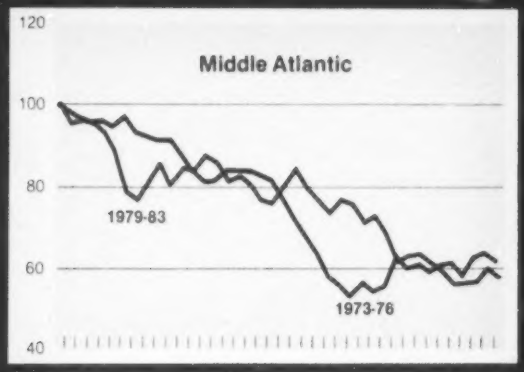


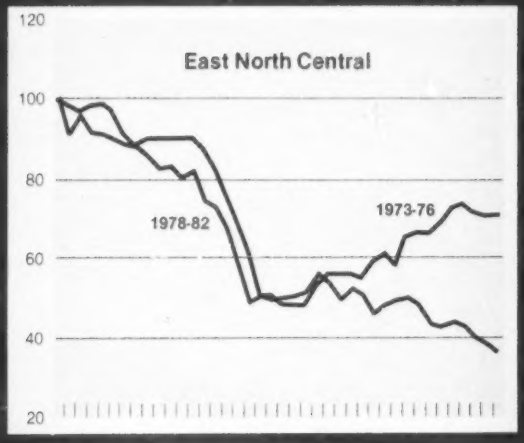


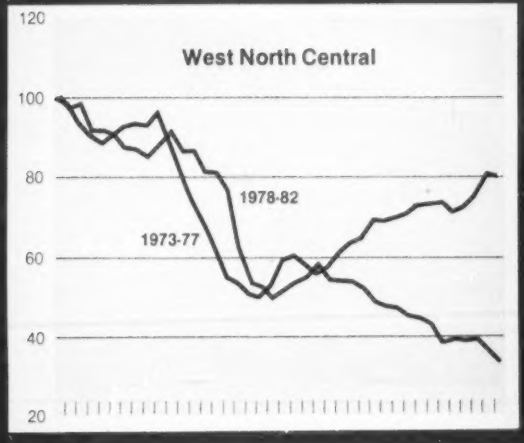
It is a little more than a year since the economy began recovering from the back-to-back recessions of the early 1980's. The decline in help-wanted advertising volume was moderate in the relatively mild recessions of 1960-1961 and 1969-1970. Both the overall recessions and the drop in want-ad volume were more pronounced in the 1953-1954 and the 1957-1958 episodes. The ad index fell off very sharply in the steep recession of 1974-1975. These earlier experiences of the business cycle's impact on the labor market differ substantially from the latest turn of events. The 1980 and 1981-1982 recessions were not unusually severe, in terms of their depth, but the impact on labor-market activity exceeded anything on record over the past three decades. Help-wanted advertising volume peaked in October, 1979, and, with the exception of a few months following the mid-1980 end of the first recession, declined continuously through September, 1982. This was the steepest and longest decline, by far, in job advertising volume since 1951—the earliest date for which data exist.

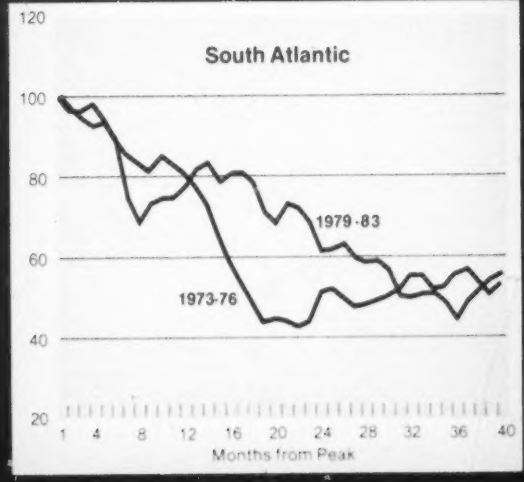
At least three principal factors can be identified as contributing to this unusually severe downturn in labor-market activity. First, many companies now believe they were overstaffed in 1979. Typically, as the economy approaches a cyclical peak, some firms overstaff. Business conditions seem to be favorable; increased order flow is anticipated; and tight labor-market conditions make it somewhat difficult to attract quality job applicants. The result is









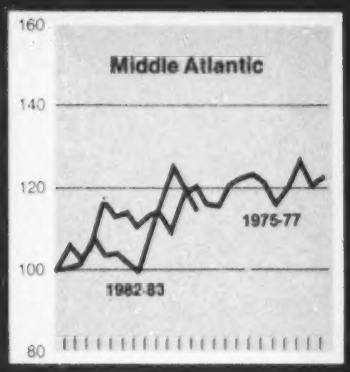


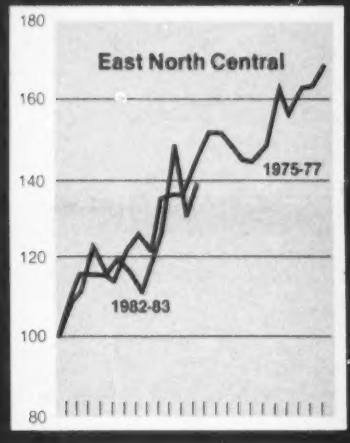
some hoarding of labor. This condition seems, in retrospect, to have been a little more pronounced in 1979 than at some earlier business-cycle peaks.

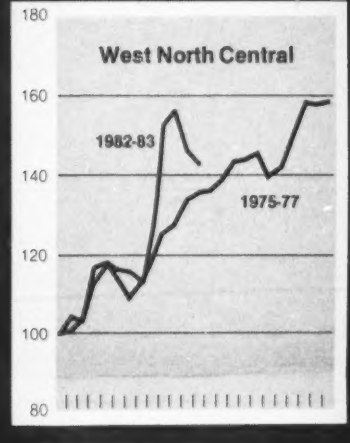
The second factor is the influence of long-term secular trends. Coming into the 1980's, a number of manufacturing plants were only marginally profitable, serving markets that were either mature and slow growing, or well supplied with product from foreign competitors. The recession precipitated decisions by some firms to reallocate resources away from their traditional base of operations in order to earn better returns on investment. The result was the permanent shutdown of some plants in "smoke-stack" industries such as auto assembly, tires and steel.

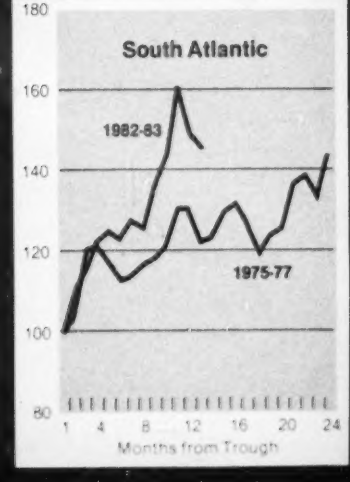
The third factor has its roots in the accelerating inflation of the 1970's, when some firms took on large amounts of debt. In the course of the back-to-back recessions, firms set about paring cost to the bare minimum. Since labor cost accounts for two-thirds to three-fourths of operating cost in most industries, staffing levels were reduced, often drastically. As a result, employment levels turned from overstaffing at the peak of the cycle to understaffing at the trough.

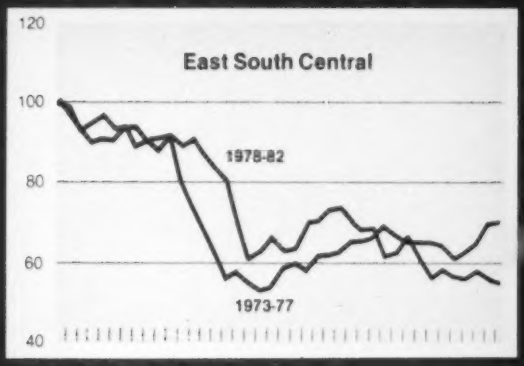
The accompaying charts show the national and regional help-wanted indexes during the 1979-1982 decline and in the recovery which began in late 1982. The downturn in 1974-1975 is the only episode that even approaches the latest experience in terms of depth and duration. All of these data have been rebased to their respective peaks and troughs in order to show the extent of decline and recovery. Nationally, help-wanted ad volume fell to just over 40% of peak volume in the 36-month period from October, 1979, to September, 1982. That far exceeds a drop to almost 60% of peak volume over a 22-month period from July, 1973, to April, 1975. The current recovery in job advertising, however, does not differ sharply from the experience in the period 1975-1977. That further suggests that some special factors were at play that deepened and lengthened the

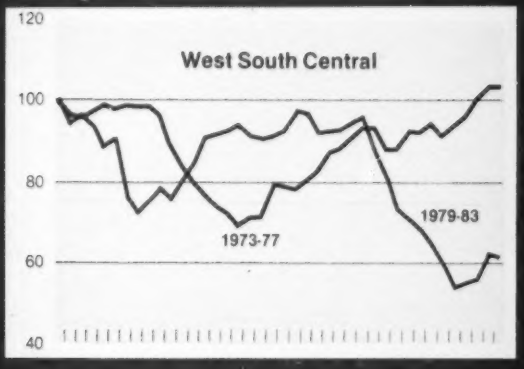


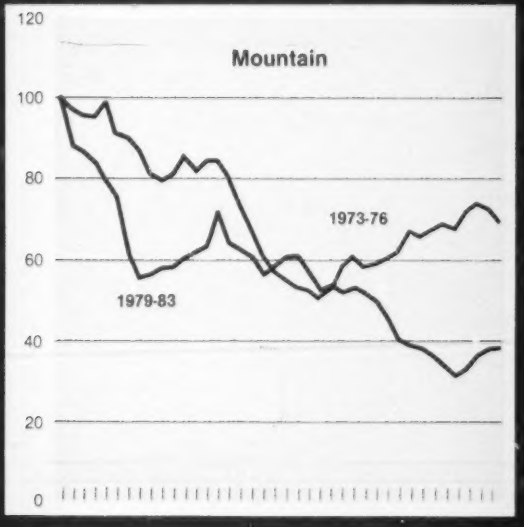


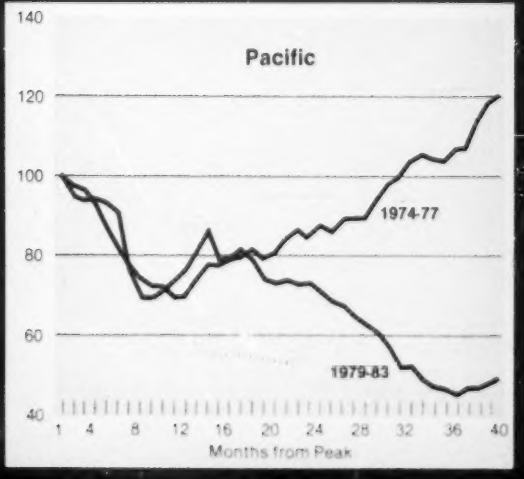












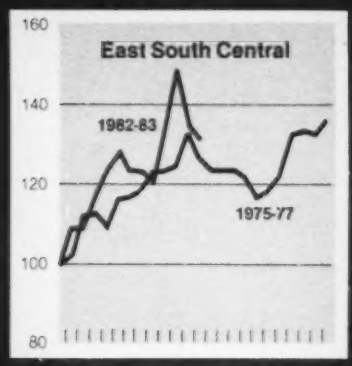
downturn in labor-market activity in the latest turn of the business cycle.

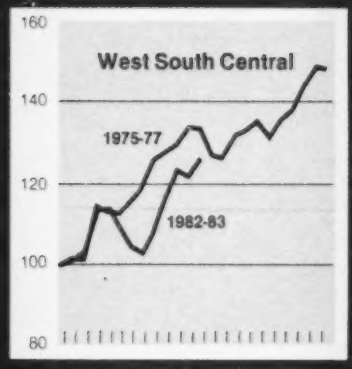
The decline in job advertising was extensive in all nine regions of the country. In six of these regions, newspapers saw their classified ad sections fall to between 44% and 60% of peak help-wanted levels. Job advertising fell by 69% in newspapers located in Mountain states. The Midwestern states, however, were most devastated by the contraction of the labor market. Ad levels fell by 72% in the East and West North Central regions. Newspapers in Detroit, St. Louis, Milwaukee and a few other metropolitan areas saw ads dwindle to a little over 20% of peak volume. Many of these centers have heavy concentrations of older manufacturing facilities, which were particularly vulnerable to partial or total and permanent shutdowns.

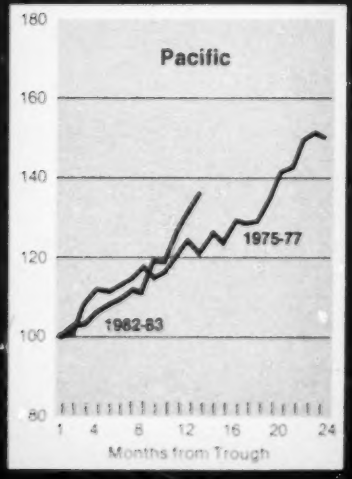
Want-ad volume has increased by between 30% to 40% in six of the nine regions since the end of the recession. Recovery has been a little faster in the Mountain region. On the other hand, it has been slower in the West South Central region, probably reflecting a troubled petroleum industry and problems along the Mexican border, which are associated with that country's economic difficulties. Ad volume is only about 15% higher now than at the trough in the Middle Atlantic region. As the charts show, that region typically declines more slowly, and to a somewhat lesser extent, than other parts of the country. That also holds with regard to recovery. Not all regions decline in the same month; some begin to show falling ad volume several months before it spreads to other parts of the country. The same is usually true during the upswing. Interestingly, while declines set in at various times in different regions, all nine regions began to regain ad volume in October, 1982. That degree of simultaneity is unusual. In each case, the indexes are charted from their individual peak and trough dates, even though the dates are not the same for all nine regions.

Ken Goldstein

Sources: Bureau of Labor Statistics; The Conference Board.





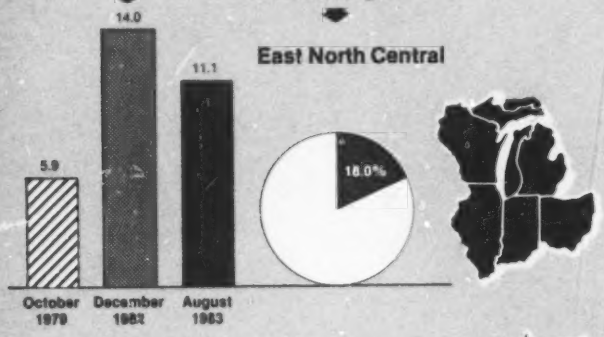


The Rise & Fall in Unemployment over The Business Cycle

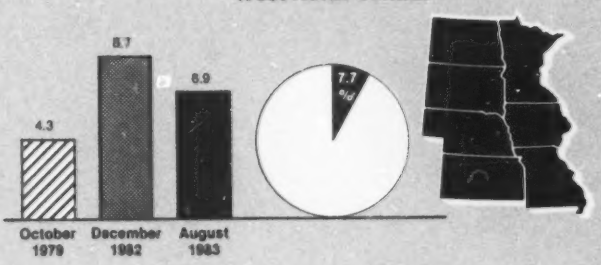
Unemployment Rate

Portion of National Labor Force in Region

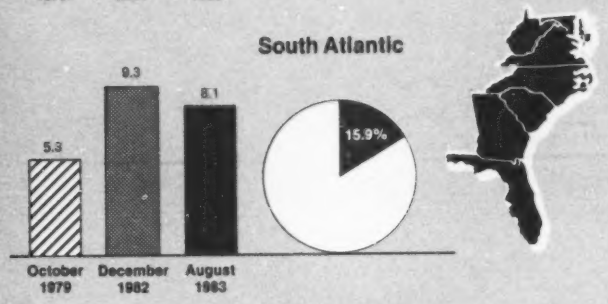
East North Central



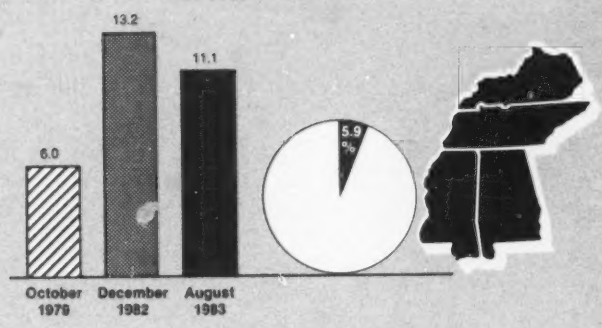
West North Central



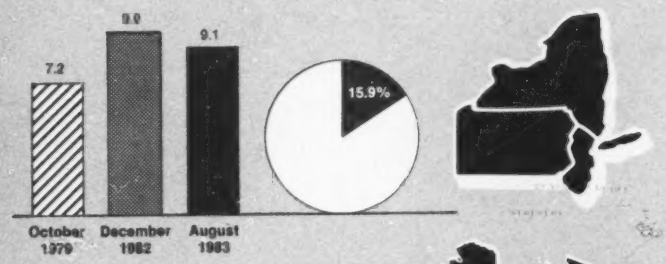
South Atlantic



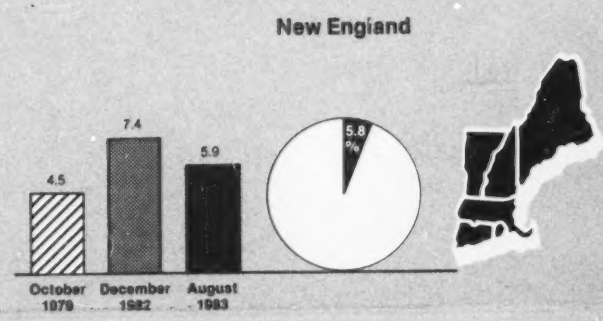
East South Central



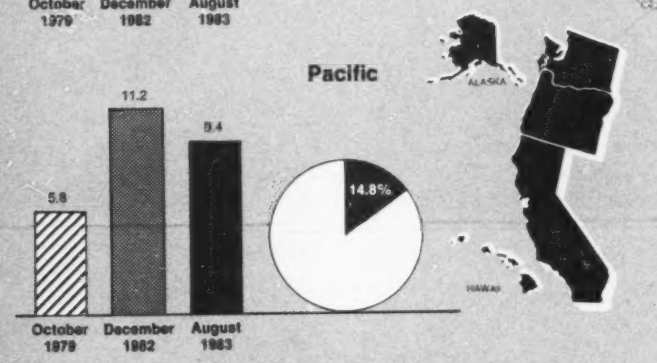
Middle Atlantic



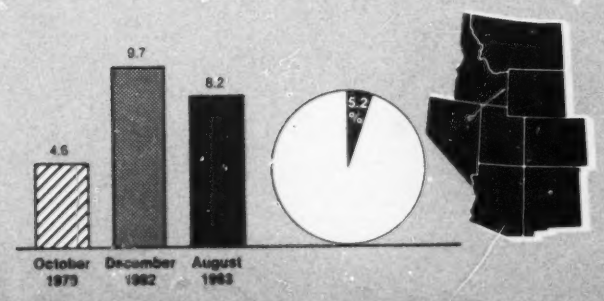
New England



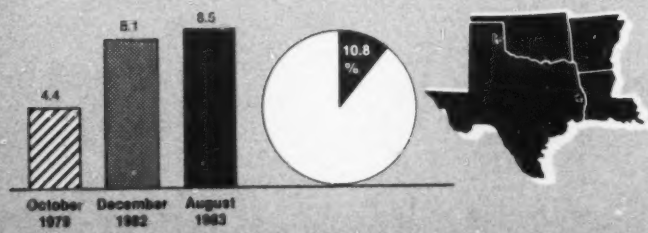
Pacific



Mountain



West South Central



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